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From: AMEMBASSY ABU DHABI (ABU DHABI 3164 - PRIORITY)

TAGS: EINV, ECON, KSPR, KPRP

Captions: None

Subject: UAE: 2003 INVESTMENT CLIMATE STATEMENT

Ref: None

UNCLAS   ABU DHABI 03164

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    ACTION: ECON
    INFO: P/M AMB DCM POL
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DISSEMINATION: ECON
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APPROVED: ADCM:KVANDEVATE
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RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPCIM/CIMS NTDB WASHDC

UNCLAS SECTION 01 OF 09 ABU DHABI 003164

SIPDIS

STATE FOR EB/IFD/OIA
STATE PASS TO USTR AND OPIC
USDOC FOR 4520/ITA/MAC/ONE/GUGLIELMI

E.O. 12958: N/A
TAGS: EINV ECON KSPR KTBD KPRP OPIC TC
SUBJECT: UAE: 2003 INVESTMENT CLIMATE STATEMENT

REF: STATE 128494

UAE: INVESTMENT CLIMATE

13.a.1. Openness To Foreign Investment

Investment laws and regulations are evolving in the UAE and are expected to become more conducive to foreign investment. At present, the regulatory and legal framework favors local over

foreign investors. There is no national treatment for investors in the UAE, and foreign ownership of land and stocks is restricted. The Emirate of Dubai announced in 2002, however, that it would permit so-called "free hold" real estate ownership by non-GCC nationals within certain properties, though the exact legal status is still uncertain. Because investment regulations vary from emirate to emirate, it is recommended that potential investors consult a local attorney to obtain the most current investment information at an early stage of planning.

The UAEG is opening up its trade sectors in line with the UAE's WTO obligations, and is drafting a landmark law on foreign direct investment that should be approved later this year. The law reportedly will include new tax exemptions and other incentives. The UAEG already has taken steps to cut red tape for foreign investors, and now exempts investors from obtaining a Ministry of Labor card in addition to an Immigration Department visa. Investors no longer need to appear in person to inquire about the status of business applications in Abu Dhabi. A new automated service, offered in Arabic and English, allows investors to receive information about their business licenses over the phone.

There have been no significant investment disputes during the past few years involving U.S. or other foreign investors. Claims resolution has not generally been a problem, although foreign companies tend not to press claims.

Regulation of the establishment and conduct of business in the UAE is shared at the federal and emirate levels. In general, foreign companies (except companies from GCC countries) that undertake business activities in the UAE or make their products available in the UAE have entered into a joint venture with UAE nationals for the establishment of limited liability companies, appointed commercial agents, or set up branch offices. Except for companies located in the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51/49 percent (UAE/foreign) limited liability company. Subsidies for manufacturing firms are available only to those companies with at least 51 percent local ownership.

OIL WILL CONTINUE TO BE A MAJOR SECTOR FOR FOREIGN INVESTMENT IN ¶2003. UAE OIL PRODUCTION CAPACITY CURRENTLY IS AROUND 2.5 MILLION BARRELS PER DAY (MB/D). IT SHOULD RISE TO 2.8 AND 3.0 MB/D BY 2005 AND 2010, RESPECTIVELY. ABU DHABI COMPANY FOR ONSHORE OPERATIONS (ADCO) PLANS TO LIFT PRODUCTION TO 1.45 MB/D, ABU DHABI MARINE OPERATING COMPANY (ADMA-OPCO) TO 600,000 B/D AND ZAKUM DEVELOPMENT COMPANY (ZADCO) TO 600,000 B/D DURING THE NEXT THREE TO FIVE YEARS. AS PART OF THE EFFORT TO CONTINUE TO IMPROVE OUTPUT AND SEEK FOREIGN TECHNOLOGICAL AND MANAGERIAL EXPERTISE, THE STATE-RUN ABU DHABI NATIONAL OIL COMPANY (ADNOC) TENDERED THE PRIVATIZATION OF A 28 PERCENT STAKE IN THE OFFSHORE ZAKUM OILFIELD IN APRIL 2002. EXXONMOBIL, CHEVRONTEXACO, SHELL, BP AND TOTALFINAELF ARE PARTICIPATING IN THIS CONTEST, WITH AN OUTCOME EXPECTED IN 2003. IN 2002, THE UNITED STATES ENJOYED A 45 PERCENT MARKET SHARE IN OIL AND GAS FIELD EQUIPMENT, SPARE PARTS, AND SERVICES. NO REGULATORY/DEMAND ISSUES AFFECT THE MARKET.

We are optimistic that opportunities for foreign investment in the public utilities sector will increase as well. In March 1998 the Abu Dhabi Water and Electricity Authority (ADWEA) awarded a contract for the UAE's first independent water and power project (IWPP), with an estimated value of USD $750 million, to an American firm. The firm was selected as part of an Anglo-American consortium to manage the emirate's second IWPP in 2001. The Abu Dhabi government has announced that power generation (includes power and desalinated water production) and transmission will be privatized, while power distribution will remain under the control of Abu Dhabi authorities. The estimated commercial value of planned power and water sector development projects in Abu Dhabi is USD $10 billion.

Defense contractors with an eye for investment in the UAE must negotiate directly with the UAE Offsets Group (UOG), and invest an amount that will generate a profit equal to an agreed upon portion of their contract in the UAE. UOG investment projects

generally must show the required profit after seven years. The contractor may not own more than 49 percent of the project, and UAE nationals must hold the remaining 51 percent. There are currently more than 25 offset ventures; offset projects cover the full spectrum of economic activity, including, inter alia, advertising, fish farming, air conditioning, language centers, shipbuilding, aircraft maintenance, leasing, medical services, and even polo grounds. Two of the largest offset ventures are an international gas pipeline project (Dolphin) and the Oasis International leasing company -- a British Aerospace offsets venture.

There is no income tax in the UAE. Foreign banks pay 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the GCC states formally implemented a single import tariff of 5 percent on most goods January 1, 2003.

13.a.2. Conversion And Transfer Policies

There are no restrictions or delays on the import or export of either the UAE Dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. The UAEG passed comprehensive anti-money laundering legislation following the attacks of September 11, 2001, that imposes strict documentary requirements on large wire transfers. Travelers entering or leaving the UAE must now declare currency amounts of more than 50,000 dirhams (approximately USD $13,700) as part of these new measures.

Since November 1980, the Dirham, though formally pegged to the IMF's Special Drawing Rights (SDR) at the rate of 4.76190 Dirhams/SDR (with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent) has remained fixed against the U.S. Dollar. The exchange rate is 3.67 UAE Dirhams per one U.S. Dollar.

13.a.3. Expropriation And Compensation

Foreign investors have not been involved in any expropriations in the UAE in recent years. There are no set rules governing compensation if expropriations were to occur, and individual emirates probably would treat this differently. In practice, authorities in the UAE would not expropriate unless there was a compelling developmental or public interest need to do so, and in such cases compensation would be generous.

13.a.4. Dispute Settlement

There have been no significant investment disputes during the past few years involving U.S. or other foreign investors, but there have been several contractor disputes, with the government as well as local businesses. Disputes generally are resolved by arbitration, by the parties themselves, or by recourse to the legal system. Dispute resolution can be difficult and uncertain, however. Arbitration may commence by petition to the federal courts on the basis of mutual consent, a written arbitration agreement, independently or by nomination of arbitrators, or through a referral to an appointing authority without recourse to judicial proceedings. Enforcing arbitration judgments can be difficult as they require court certification, and judicial proceedings may continue for several years.

The UAE constitution established a federal court system while acknowledging the right of the individual emirates to maintain a court system of their own. Accordingly, each emirate applies federal law in its own court system that consists of courts of first instance, courts of appeal and a Supreme Court. The court of first instance consists of civil, criminal, and sharia (Islamic law) courts. Sharia law is only applicable to Muslims and relates to family matters mentioned in the Koran. Courts will interpret statutory law and legal precedent in deciding cases. Commercial disputes involving foreign parties tend to come before the civil courts in the federal system; a panel of

three judges ordinarily hears commercial disputes. All cases involving banks and financial institutions are required to be heard by civil courts. In Abu Dhabi, all non-arbitration commercial disputes are first brought to the Abu Dhabi Conciliation Department. If the parties are unable to reach a settlement, they can begin legal proceedings in the court of first instance.

The UAE federal Supreme Court has held that a foreign arbitration clause in a registered commercial agency agreement is unenforceable because the Commercial Agency Law of 1981 states that UAE courts have jurisdiction over commercial agency disputes. According to an analysis by Western-trained attorneys of the UAE code of civil procedure, however, UAE courts will recognize a decision by both parties to refer a dispute to arbitration. No party in a dispute can file a court claim if such party already has agreed to refer the claim to arbitration. The parties can move to arbitration at any stage during litigation. The civil procedure code details rules governing the qualification of arbitrators and many other aspects of the arbitration process. The venue of arbitration is required to be within the UAE, and if not, the resultant award is treated like a foreign judgment.

The code contains comprehensive rules in connection with the various types of preventive and provisional remedies prior to litigation and the issuance of judgments, including the attachment of property, confiscation of the defendant's passport and prohibitions on travel, as well as the detention of the defendant in certain instances. However, the courts must certify all arbitration decisions, and though they do not review substantive claims, they can invalidate decisions based on procedural considerations. Parties can also appeal certification decisions thus prolonging enforcement indefinitely.

In 1993 the Abu Dhabi Chamber of Commerce and Industry formed the Abu Dhabi Commercial Conciliation and Arbitration Center in an effort to accelerate commercial dispute resolution. The Center has jurisdiction to conciliate or arbitrate commercial disputes. Currently, the Center has 135 open cases and accepts roughly 30-40 new cases each year. The Center's executive regulations govern the conciliation and arbitration procedure. Though referral by the parties to the Dispute Center ostensibly requires them to accept the finality of the Center's decision, the courts must still certify the decision and enforcement can be delayed. The Center conducts proceedings in Arabic or any other agreed upon language.

The Dubai Chamber of Commerce and Industry has promulgated similar commercial conciliation and arbitration rules that permit parties to have conciliation or arbitration proceedings under the auspices of the Chamber.

The UAE is a member of the International Center for the Settlement of Investment Disputes. In May 2003, the UAE Cabinet approved entry into the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The UAEG is likely to implement the legislation enacting the Convention by the end of the year.

13.a.5. Performance Requirements/Incentives

As listed elsewhere in this report, the regulatory and legal framework in the UAE favors local over foreign investors. There is no national treatment for investors in the UAE. The UAE maintains non-tariff barriers to investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. They cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards, and re-tendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which UAE nationals own at least 51 percent of the capital. Federal tenders must be accompanied by a bid bond

in the form of an unconditional bank guarantee for 5 percent of the value of the bid.

Incentives are given to foreign investors in the free zones. Outside the free zones, no incentives are given, although the ability to purchase property as freehold in certain favored projects in Dubai -- and promises that foreign owners of such property would be granted residence permits as long as they remained in possession of title -- would appear to be incentives aimed at attracting foreign investment.

Visas, residence permits, and work permits are required of all foreigners in the UAE except nationals from GCC countries. Americans are eligible to receive 10-year, multiple entry visas, which authorize stay up to six months per entry, with the possibility of a six-month extension. U.S. citizens may obtain visas for business and tourism at the airport upon arrival. These visas do not permit employment in the UAE.

13.a.6. Right To Private Ownership And Establishment

Except as detailed elsewhere in this report, there are no restrictions on the right of private entities to establish and own business enterprises and engage in all forms of remunerative activity.

13.a.7. Protection Of Property Rights

The concept of a mortgage has just been introduced -- but only for select Dubai-based five-star property developments. Mortgages are generally unavailable beyond these limited exceptions. Title to all land in Abu Dhabi, the largest emirate, resides in the ruler. Most construction, commercial and residential, is financed by a specialized agency of the government of Abu Dhabi, and commercial banks finance the remainder. Their collateral traditionally has been access to the rent stream of the building or the personal guarantee of the developer.

AS PART AND PARCEL OF ITS DEVELOPMENT INTO A REGIONAL TRADING CENTER, THE UAEG HAS MADE THE PROTECTION OF INTELLECTUAL PROPERTY A PRIORITY IN RECENT YEARS. NEW COPYRIGHT, TRADEMARK AND PATENT LAWS, PASSED IN 2002, PROVIDE HIGH LEVELS OF PROTECTION FOR U.S. INTELLECTUAL PROPERTY, WHILE AN AGREEMENT -- BROKERED BY THE EMBASSY IN 2002 -- CONTINUES TO PROVIDE TRIPS-PLUS LEVELS OF PROTECTION FOR U.S. PHARMACEUTICALS.

The UAEG repealed previous copyright, trademark, and patent laws and issued improved legislation in 2002 in harmony with international standards and exceeding the UAE's TRIPs obligations. The new copyright law, enacted in July 2002, is the product of a prolonged dialog between the UAEG and international organizations such as WIPO and the WTO. It grants protections to authors of creative works and expands the categories of protected works, to include computer programs, software, databases, and other digital works. Efforts to combat computer software piracy in the UAE have been successful. According to 2001 industry estimates, the rate of software piracy in the UAE is the lowest in the Middle East. The UAE is recognized as the regional leader in fighting computer software piracy.

THE UAE'S NEW TRADEMARK LAW, ALSO ISSUED IN JULY 2002, CONFIRMS THAT THE UAE WILL FOLLOW THE INTERNATIONAL CLASSIFICATION SYSTEM AND THAT ONE TRADEMARK CAN BE REGISTERED IN A NUMBER OF CLASSES. THE NEW LAW PROVIDES THAT THE OWNER OF THE REGISTRATION SHALL ENJOY EXCLUSIVE RIGHTS TO THE USE OF THE TRADEMARK AS REGISTERED AND CAN PREVENT OTHERS FROM USING AN IDENTICAL OR SIMILAR MARK ON SIMILAR, IDENTICAL OR RELATED PRODUCTS AND SERVICES IF IT CAUSES CONFUSION AMONG CONSUMERS.

THE UAEG PUBLISHED THE OFFICIAL AND FINAL VERSION IN NOVEMBER 2002 OF THE LONG-AWAITED PATENT LAW. SPECIFICALLY, THE PATENT LAW PROVIDES FOR -- IN ACCORDANCE WITH THE UAE'S TRIPS OBLIGATIONS -- NATIONAL TREATMENT FOR IP OWNERS IN OTHER WTO MEMBER STATES, BOTH PRODUCT AND PROCESS PATENT PROTECTION, AND ENFORCEMENT OF IPR WHEREBY CIVIL AND CRIMINAL PROCEDURES AND REMEDIES MAY BE EMPLOYED.

In March 2002, the UAE Ministries of Health and Finance and Industry conveyed in writing their acceptance of PhRMA's best and final offer under which 25 U.S. patent-protected, innovative products would be afforded 5-year data exclusivity protection. Under the terms of the agreement which PhRMA and the UAEG accepted, all other U.S.-patented drugs, whether pending registration or not, will be given data exclusivity protection in the UAE market equal to the patent term -- a commitment which is consistent with the UAE's TRIPs obligations.

13.a.8. Transparency Of The Regulatory System

The fundamental instrument by which all of the emirates regulate business activity is the requirement that any place of business must acquire and maintain a proper license. The procedures for obtaining a license vary from emirate to emirate, but are straightforward and publicly available.

A license is not required unless a place of business is set up in the UAE. In other words, foreign businesses exporting to the UAE but without a regular or continuing business presence in the UAE do not need a license. Licenses available include trade licenses, industrial licenses, service licenses, professional licenses, and construction licenses.

Several federal regulations govern business activities in the UAE outside free trade zones. Activities within the free zones are governed by special bylaws.

The Federal Companies Law applies to all commercial companies established in the UAE and to branch offices of foreign companies operating in the UAE. The following provisions are of particular importance to foreign investors:

¶A. Companies established in the UAE are required to have a minimum of 51 percent UAE national ownership. However, profits may be apportioned differently.

¶B. Branch offices of foreign companies are required to have a national agent unless the foreign company has established its office pursuant to an agreement with the federal or an emirate government.

¶C. All general partnership interest must be owned by UAE nationals.

¶D. Foreign shareholders may hold up to a 49 percent interest in limited liability companies.

The Commercial Agencies Law requires that foreign principals distribute their products in the UAE only through exclusive commercial agents that are either UAE nationals or companies wholly owned by UAE nationals. The foreign principal can appoint one agent for the entire UAE or for a particular emirate or group of emirates. The law provides that an agent may be terminated only by mutual agreement of the foreign principal and the local agent, notwithstanding the expiration of the term of the agency agreement.

The Federal Industry Law stipulates that industrial projects must have 51 percent UAE national ownership. The law also requires that projects either be managed by a UAE national or have a board of directors with a majority of UAE nationals. Exemptions from the law are provided for projects relating to extraction and refining of oil, natural gas, and other raw materials. Additionally, projects with a small capital investment or special projects governed by special laws or agreements are exempt from the industry law.

The Government Tenders Law stipulates that a supplier, contractor, or tenderer with respect to federal projects must either be a UAE national or a company in which UAE nationals own at least 51 percent of the share capital. Foreign companies wishing to bid for a federal project must, therefore, enter into a joint venture or agency arrangement with a UAE national or company. Federal tenders must accompany a bid bond in the form of an unconditional bank guarantee for 5 percent of the value of

the bid.

13.a.9. Efficient Capital Markets And Portfolio Investment

The UAE federal commercial code, promulgated in 1993, devotes an entire chapter to bankruptcy -- the first comprehensive legislation in the UAE on the subject. Monetary judgments in bankruptcy cases are made in the local currency, and UAE courts enforce the judgments of foreign courts if there is reciprocity based on bilateral or international treaties. In the judgment of Western legal experts, the commercial code chapter on bankruptcy governs the procedures and effects of bankruptcy in the UAE, but does not provide a mechanism for the orderly evaluation and distribution of assets of a bankrupt entity.

Credit is allocated on market terms. There are 21 UAE-owned banks with 344 branches in the UAE and abroad, 26 foreign banks with 109 branches, one restricted license bank, two investment banks, and 49 representative offices. The Central Bank no longer issues licenses for new foreign banks to establish branches in the UAE. Citibank is the only U.S. bank in the UAE that offers full banking services. Bank of America has a representative office in Dubai, while Bank of New York has one in Abu Dhabi. The largest banks in terms of assets include the National Bank of Abu Dhabi, National Bank of Dubai, Emirates Bank International, Mashreqbank, and Abu Dhabi Commercial Bank.

The Central Bank prohibits lending an amount greater than 7 percent of a bank's capital base to any single customer. Foreign banks with branches in the UAE are not permitted to calculate loans as a percentage of their global capital, which may however be used to calculate the capital adequacy ratio. In a revision to the rule, the Central Bank in 1993 said it would exclude from the requirement non-funded exposures, such as letters of credit and guarantees. The Central Bank also announced implementation of internationally recognized and accepted accounting principles. THE UAEG IMPLEMENTED A BODY OF ANTI-MONEY LAUNDERING LEGISLATION AT THE END OF 2001, WHICH INCLUDED STRINGENT REPORTING REQUIREMENTS FOR WIRE TRANSFERS EXCEEDING USD $545 AND CURRENCY IMPORTATION/EXPORTATION OF AMOUNTS EXCEEDING APPROXIMATELY USD $13,700. THE LAW IMPOSES STIFF CRIMINAL PENALTIES (JAIL TIME AND FINES) FOR MONEY LAUNDERING AND ALSO PROVIDES SAFE HARBOR PROVISIONS FOR THOSE WHO REPORT SUCH CRIMES. BANKS AND OTHER FINANCIAL INSTITUTIONS ARE REQUIRED TO FOLLOW STRICT "KNOW YOUR CUSTOMER" GUIDELINES; ALL FINANCIAL TRANSACTIONS MORE THAN USD $54,000, REGARDLESS OF THEIR NATURE, MUST BE REPORTED TO THE UAE CENTRAL BANK. BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERVISED BY THE CENTRAL BANK (EXCHANGE HOUSES, INVESTMENT COMPANIES, AND BROKERAGES) ARE REQUIRED TO MAINTAIN RECORDS ON ALL TRANSACTIONS FOR AT LEAST FIVE YEARS.

The UAE Central Bank established the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU) in 1998 to perform the functions of a financial intelligence unit (FIU). The AMLSCU joined the prestigious Egmont Group of FIUs -- the first Arab country to do so -- at the Group's June 2002 conference in Monaco. This membership was the basis of a number of Memoranda Of Understanding the AMLSCU signed with other countries' FIUs in 2002 to facilitate information sharing and case processing. The AMLSCU participated in seminars, consultative meetings, and training with Washington-based agencies in 2002, including the Department of Treasury's FinCEN. Banks, customs officials, and other relevant personnel are required to file suspicious transaction reports with the unit.

Local banks finance most non-oil investment in the UAE. Even so, banks lack sufficient lending opportunities in the UAE, and consequently place most of their funds in overseas markets. Most of the manufacturing sector operates with higher levels of debt than prescribed by the 60:40 debt-to-equity ratio -- generally the norm for this sector. Some three-fourths of gross fixed capital formation in manufacturing is directly or indirectly financed by the banking system.

Abu Dhabi and Dubai each have a stock exchange, but only one stock currently is open to foreign investors, and it is capped at 20 percent total foreign ownership. Limited participation by

foreigners in a few mutual funds is permitted.

13.a.10. Political Violence

There have been no instances in recent memory involving politically motivated damage to projects, or insurgencies that have impacted the investment environment.

13.a.11. Corruption

As in many other countries, corruption is a concern for U.S. firms seeking to do business in the UAE. American firms are bound by the Foreign Corrupt Practices Act -- a copy of which may be obtained from the Commercial Section of the U.S. Embassy.

THERE IS NO EVIDENCE THAT CORRUPTION OF PUBLIC OFFICIALS IS A SYSTEMIC PROBLEM; HOWEVER, THE FORMER HEAD OF DUBAI CUSTOMS AND PORT AUTHORITY -- ALONG WITH FIVE OTHER CUSTOMS OFFICIALS -- WAS TRIED, CONVICTED, AND SENTENCED IN APRIL 2001 TO 27 YEARS IN PRISON ON CHARGES OF CORRUPTION AND EMBEZZLEMENT. HE WAS PARDONED FOUR MONTHS LATER BY THE DUBAI GOVERNMENT AND RELEASED.

13.a.11.b. Bilateral Investment Agreements

The UAE has bilateral investment agreements with a number of countries, including the United Kingdom. There is no bilateral investment treaty with the United States. While the UAE has expressed general interest in discussing a bilateral investment treaty with the United States, the lack of national treatment for foreign investors has proven problematic, particularly with regard to foreign ownership.

13.a.11.c. OPIC And Other Investment Insurance Programs

The UAE has been suspended from U.S. OPIC insurance programs since 1995 because of the UAEG's lack of compliance with internationally recognized worker rights standards -- particularly laborers' rights to association and collective bargaining. The ILO reported in April 2003, however, that the UAE had started projects to address these concerns, and this year drafted a labor law in consultation with the ILO that permits the creation of formal labor associations/unions.

Workers currently address grievances and negotiate disputes or matters of interest with employers through formal and informal mechanisms, including strikes -- even though the law does not technically sanction them. The UAEG does allow workers to associate freely for the advancement of common goals and interests.

The UAEG prohibits strikes by those employed in the public sector on the grounds of national security considerations. There is continuous coverage in the local press, however, of private sector employees striking in protest of non-payment of wages. Throughout 2002 and 2003, Ministry of Labor officials investigated and mediated such disputes -- often to the benefit of the striking workers -- and negotiated quick settlements.

13.a.11.d. Labor

Population in the UAE is approaching 3.9 million, according to 2002 data estimates. More than 80 percent of residents are foreigners, and approximately 98 percent of private sector workers in the UAE are non-UAE nationals. Emiratization of the UAE workforce remains a national objective, although mandated hiring of nationals has been limited to only a few sectors, such as banking.

The Right to Organize and Bargain Collectively

The law does not specifically grant -- but does not prohibit -- workers the right to engage in collective bargaining. It does, however, expressly authorize collective work dispute resolution.

There were a number of organized gatherings of workers that complained of unpaid wages before the Ministry of Labor and Social Affairs in 2002. Professional associations may raise work-related concerns, to lobby the UAEG for redress, or to file a grievance with the Government. For the resolution of work-related disputes, workers rely on conciliation committees organized by the Ministry of Labor and Social Affairs or on special labor courts.

Labor laws do not cover, and therefore do not protect, government employees, domestic servants, and agricultural workers. The latter two groups face considerable difficulty in negotiating employment contracts because the mandatory requirements contained in the labor law do not apply. They also face considerable difficulty in obtaining assistance to resolve disputes with their employers. UAE employers generally tie an employee's residency or visa to his employment and sponsorship. If the employee terminates his employment and is unable to secure new employment and a new sponsor, the employee loses residency and could be required to leave the country.

Businesses in free trade zones must comply with federal labor laws; however, the Ministry of Labor does not regulate them. Instead, each free trade zone maintains its own labor department to address workers' concerns.

Prohibition of Forced or Bonded Labor

Forced or bonded labor is illegal in the UAE. However, some employment agents bring foreign workers to the country under conditions approaching indenture. Some women reportedly are brought to the country for service sector employment and later forced into prostitution. The Government prohibits forced and bonded child labor and generally enforces this prohibition effectively. In particular, the UAEG has taken concrete steps to resolve the problems of child camel jockeys.

Status of Child Labor Practices and Minimum Age for Employment

The labor law prohibits employment of persons under the age of 15 and has special provisions for employing those 15 to 18 years of age. The Federal Ministry of Labor and Social Affairs is responsible for enforcing the regulations. Other regulations permit employers to employ only adult foreign workers. The UAEG does not issue work permits for foreign workers under the age of 18 years.

In September 2002, the UAEG began implementing a child camel jockey ban with criminal penalties for violators up to and including imprisonment. The ban prohibits the use of camel jockeys less than 15 years of age.

Acceptable Conditions of Work

There are a considerable number of skilled foreign nationals in the country who are employed under favorable working conditions. However, the country is also a destination for a large number of unskilled workers, including more than 200,000 domestic servants, most of them women from South and East Asia, and an even larger number of unskilled male workers, mostly from South Asia. These unskilled laborers actively compete for jobs in the UAE, and some are subject to poor working conditions.

The standard workday is eight hours per day; the standard workweek is six days per week; however, these standards are not enforced strictly. Certain types of workers, notably domestic servants, are required to work longer than the mandated standard. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. There is no legislated or administrative minimum wage; rather, supply and demand determine compensation. Compensation packages generally provide housing or housing allowances. In addition, other benefits, such as homeward passage or health cards for minimal to no-cost health care, are often provided to employees by their employers. The Labor and Social Affairs Ministry reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The Ministries of Health and of Labor and Social Affairs,

municipalities, and civil defense enforce health and safety standards, and the Government requires every large industrial concern to employ a certified occupational safety officer. Contrary to popular belief, there is no law in the country that prohibits labor outdoors when the temperature exceeds 50 degrees Celsius. The law does require, however, that employers provide employees with a safe work environment.

13.a.11.e. Foreign Trade Zones/Free Ports

The UAE Free Zones today are home to approximately 5,000 companies with a total investment estimated at more than USD $4 billion. Presently, 13 free trade zones operate in the UAE, and more are in the developmental stage. Overall, these free zones form a vital component of the local economy, and serve as major re-export centers to the Gulf region.

Since UAE tariffs are low and not levied against many imports, the chief attraction of the free zones is the waiver of the requirement for majority local ownership. In the free zones, foreigners may own up to 100 percent of the equity in an enterprise. All free zones provide 100 percent import and export tax exemption, 100 percent exemption from commercial levies, 100 percent repatriation of capital and profits, multi-year leases, easy access to sea and airports, buildings for lease, energy connections (often at subsidized prices), and assistance in labor recruitment. In addition, the free zone authorities provide significant support services, such as sponsorship, worker housing, dining facilities, recruitment, and security for a fee.

By far the largest and most successful of the free zones is the Jebel Ali Free Zone (JAFZ) in Dubai, located 20 kilometers south of Dubai city adjacent to the Jebel Ali Port. Over 2,200 companies representing 80 countries have set up shop in the JAFZ, including numerous Fortune 500 firms.

The JAFZ managing authority authorizes three types of licenses -- a general license, a specific license, and a national industrial license. The licenses are valid while a company holds a current lease from the free zone authority and are renewable annually as long as the lease is in force. The special license is issued to companies incorporated, or otherwise legally established, within the free zone or outside the UAE. In such cases, no other license is required, and the ownership of the company may be 100 percent foreign. The license is issued for any activity permitted by the free zone authority, including manufacturing. A company with a special license can operate only in the JAFZ or outside the UAE, but business can be undertaken and sales made in the UAE through or to a company holding a valid Dubai Economic Department license. A company with a special license, however, can itself purchase goods or services from within the UAE.

A variety of innovative free zones in Dubai have been established since 2000, most notably the TECOM (Technology, Electronic Commerce and Media) free zone. TECOM houses both Internet City and Media City, two subdivisions which cater, respectively, to the IT and media sectors. TECOM offers a high bandwidth, state-of-the-art IT infrastructure. Current tenants of TECOM include prominent names such as Oracle, Reuters, CNN, Hewlett Packard and Microsoft. Other Dubai free zones planned include Health Care City, specializing in medical products and services, and the Mohammed Bin Rashid Technology Park, which aims to promote scientific research and development, and to transfer technology throughout the region.

13.a.11.f. Foreign Direct Investment Statistics
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The UAE Ministry of Planning reported that FDI inflows reached USD $16.4 billion in 2002. Principal foreign investors to the UAE were from the United Kingdom, the United States, France, India, Japan, and Germany.
The Abu Dhabi Chamber of Commerce and Industry notes that the leading sectors for investment in the UAE in 2002 were (in order of magnitude of investment): oil and gas-field machinery and services, power and water, computer/peripherals, medical equipment and supplies, airport development and ground equipment,

telecommunications, and franchising.

There are no restrictions or incentives with regard to the export of capital and outward direct investment, and UAE investment abroad is significant. It is conservatively estimated that the Abu Dhabi Investment Authority (ADIA) manages an approximate USD $150 billion in government assets in overseas markets -- mostly in the United States, Europe, and Asia.

The United Nations Conference on Trade and Development (UNCTAD) reports that net FDI flow for the UAE was $200 million during 2000, and net negative flow of $156 million in 2001. Official UAE statistics on FDI flows are not available.

Wahba